

## Water Utilities

Price:	\$44.09
Fair Value Estimate:	\$70.00
52-Week Range:	\$30.40 - \$52.00
Market Cap (MM):	10,815
Shr.O/S-Diluted (mm):	245.3
Average Daily Volume:	1,075,865
Book Value:	\$18.90
Dividend:	\$1.00
Yield:	2.3%

FYE: Dec	2020A	2021E	2022E
EPS:	\$1.58A	\$1.67E	\$1.78E
Prior EPS:		NC	NC
P/E Ratio:	27.9x	26.4x	24.8x

### Quarterly EPS:

Q1	\$0.60A	\$0.66E	\$0.68E
Q2	\$0.29A	\$0.22E	\$0.25E
Q3	\$0.23A	\$0.26E	\$0.27E
Q4	\$0.46A	\$0.52E	\$0.58E

EPS: adjusted

### Quarterly Revenue (M):

Q1	\$256A	\$700E	\$725E
Q2	\$384A	\$342E	\$352E
Q3	\$349A	\$360E	\$370E
Q4	\$474A	\$501E	\$526E
Year:	\$1,463A	\$1,976E	\$2,043E



February 25, 2021

## Essential Utilities Inc.

(WTRG) - BUY

## Strong Finish to 2020, Guidance For 2021 Compares Favorably; Reiterate BUY Rating, \$70 Fair Value

### PORTFOLIO MANAGER BRIEF

Essential Utilities 4Q20 adjusted EPS of \$0.46 matched our estimate and was slightly ahead of consensus, and its 2021 EPS guidance range of \$1.64 to \$1.69 compares favorably to our our \$1.67 forecast (also consensus). We've made minor adjustments to our forward estimates (see table, this page) and reiterate BUY rating and \$70 Fair Value, based on a P/E of 39x our 2022 EPS estimate of \$1.78. The shares yield 2.3%, highest in the water utility peer group.

### ANALYST NOTES

- 4Q20 Adjusted EPS Met Expectations.** On the top line, revenues of \$474MM increased 109.7% YOY, benefitting from the Peoples Gas acquisition (+ \$241MM) and increased volume, growth, rate and surcharge increases in the regulated water segment (+\$10MM) while "other" items netted a -\$3MM. On the bottom line, adjusted EPS of \$0.46 matched our estimate and was a penny ahead of consensus.
- 2021 Guidance Update.** For the full year, key guidance items include EPS (\$1.64 to \$1.69), EPS CAGR of 5% to 7% for 2020 through 2023, CAPEX of \$550MM for the Water segment and \$450MM for the Natural Gas segment. For the 2021 through 2023 period, CAPEX of \$3B, which is expected to drive rate base compound annual growth of 6%-7% for the Water segment and 8% to 10% for the Natural Gas segment. Other items include Water segment customer growth of 2% to 3% (acquisitions and organic), reduction of Scope 1 and Scope 2 greenhouse gas emissions by 60% by 2035 and multiyear plans to achieve diverse supplier spend and employees of color.
- Regulatory Update.** WTRG has received rate awards in NJ, NC, OH and PA of \$8.5MM YTD. It has proceedings in VA and IN that would add an estimated \$1.8MM in incremental revenues.
- Strong Acquisition Activity Continues.** 2021 looks to be a very strong year for acquisitions, with the biggest announced transaction (DELCORA, 198K equivalent dwelling units) expected to receive a Pennsylvania Public Utility Commission (PAPUC) decision in March. All-in, Essential Utilities has six signed purchase agreements encompassing 227K equivalent dwelling units that will add \$438MM in rate base when closed. The Company's pipeline of potential acquisitions represents 375K total water/wastewater customers. Its target for 2021 is to sign municipal deals totaling at least \$100MM of rate base.

- Summary/Valuation. We remain perplexed as to why WTRG shares aren't trading at high price levels. The Company's executed in accordance with guidance, has a robust CAPEX plan for the next three years, expects 5%-7% earnings growth through 2023 and continues to close acquisitions of size, augmenting organic growth. Its regulatory risk is probably the lowest of any in the peer group with multi-state operations, and its yield at 2.3% is the highest. Within the water utility peer group, WTRG remains our top pick, and we reiterate our BUY rating and \$70 Fair Value, based on a P/E of 39x our 2022 EPS estimate of \$1.78. Our target yield for WTRG shares is 1.5% against an expected 2022 annualized dividend of \$1.05.

## IMPORTANT DISCLOSURES

### Research Analyst Certification

I, Michael Gaugler, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

### Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend

Janney Montgomery Scott LLC currently acts as a market-maker in the securities of Essential Utilities Inc..

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Essential Utilities Inc. in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

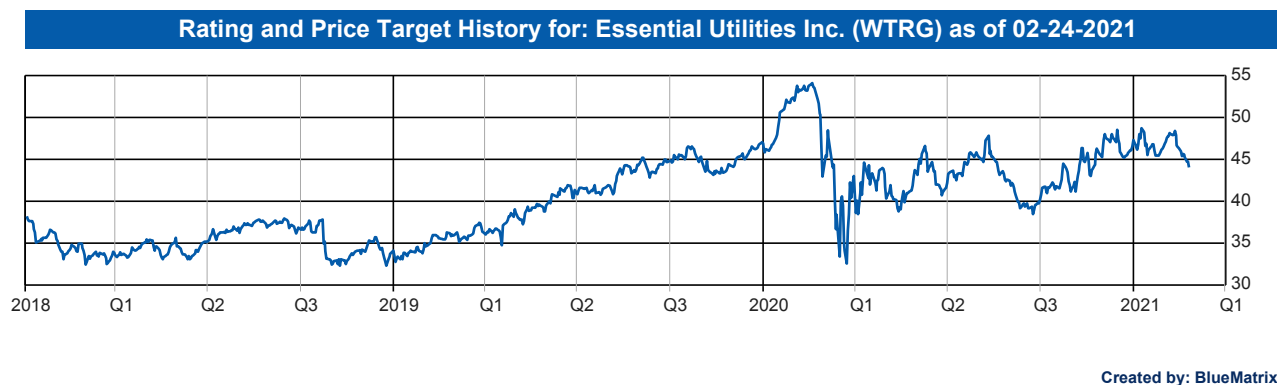
### Definition of Ratings

**BUY:** Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

**NEUTRAL:** Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

**SELL:** Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

### Price Charts



### Janney Montgomery Scott Ratings Distribution as of 12/31/2020

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
<b>BUY [B]</b>	115	46.18	27	23.48
<b>NEUTRAL [N]</b>	134	53.82	16	11.94
<b>SELL [S]</b>	0	0.00	0	0.00

\*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

### Other Disclosures

Janney Montgomery Scott LLC, is a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the New York Stock Exchange, the Financial Industry Regulatory Authority and the Securities Investor Protection Corp.

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